AUTOMATION PROGRAM OF UNITED STATES POSTAL SERVICE

HEARING

BEFORE THE

SUBCOMMITTEE ON
POSTAL OPERATIONS AND SERVICES

OF THE

COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

OCTOBER 22, 1987

Serial No. 100-32

Printed for the use of the
Committee on Post Office and Civil Service

U.S. GOVERNMENT PRINTING OFFICE
88-967 WASHINGTON : 1988

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H621-1

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AUTOMATION PROGRAM OF UNITED STATES POSTAL SERVICE

THURSDAY, OCTOBER 22, 1987

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:30 a.m., in room 311, Cannon House Office Building, Hon. Mickey Leland, presiding.

Mr. LELAND. Good morning, and welcome to this hearing of the Subcommittee on Postal Operations and Services. Our subject today is the U.S. Postal Service's efforts to automate mail processing.

This is a process that has been going on since the late 1970's. It has been a long and painful one, and almost everything that could have gone wrong has. We have had corruption, bad management, delays for all kinds of reasons, and an inability to adapt to advancements in technology. One factor led to all those problems, and that was the assumption that a nine digit ZIP Code was necessary in order to reach the goals of the automation program.

The essence of this program has never been a nine digit ZIP Code. It has been, and remains, sorting of mail through the use of bar codes. The nine digit ZIP Code is only a path to bar coding. Unfortunately, the nine digit ZIP Code has turned out to be not a path to bar coding, but a detour.

The results of the testing of the converted Phase II single line OCRS have proven without any doubt that the nine digit ZIP Code is unnecessary in order to reach maximum results from the technology readily available today.

Bar code sorting eliminates at least one, and sometimes more, steps in the sorting process; and it is less expensive, more accurate and more efficient. It is a proven method that is in widespread use in many different applications.

Anyone that shops at Giant, Safeway or any of the other supermarkets that use bar codes to identify products and their prices knows how simple and reliable bar coding is. Mailers have been telling this committee for several years that it is no more difficult to put bar codes on mailing lists than it is to put nine numbers on them.

That is why I'm absolutely convinced that the ideal automated mail processing system would be one based on mailer bar coding and multi-line optical character readers.

Today we will discuss three recent developments in the automation effort: (1) The granting of a contract for conversion of the Phase II single line OCRS to multi-line capability; (2) The granting of five contracts for the development of new multi-line OCRS and one contract for converting Phase I single-line OCRS to multi-line capability; and (3) The first step toward encouraging bar coding by mailers through the inclusion in the current rate case of a request for a small discount.

These actions could develop into important progress in establishing a multi-line OCR/mailer bar coding based system for automated mail processing, but only if accompanied by an aggressive program to encourage and achieve high levels of mailer bar coding.

The subcommittee will be expecting to see development of such a program in the very near future. In order to assist in that effort, the subcommittee is planning a series of briefings for staff and members, as well as oversight hearings, to bring potential benefits of mailer bar coding before the Congress and the public.

In June 1984 the committee received the results of an Office of Technology Assessment review of postal automation strategy. The committee had requested the study because of our great concern that the nine digit ZIP Code was not a good idea.

The Office of Technology Assessment used a model with three different nine digit ZIP Code usage levels. The high level represented the postal service's projections. The medium level represented the growth pattern of the five digit ZIP Code, and the lower level represented the growth pattern of the ill fated and now defunct ECOM service.

At that time the Postal Service's projections for 1987 were for over 65 percent of the mail to have the nine digit ZIP Code on it. The medium level would have yielded just under 35 percent and the low level just under 20 percent.

The actual percentage at present is only fifteen percent. This is less than the low level used in the model and does not even approach the acceptance rate for the five digit ZIP Code.

Clearly, it is time to go in a new direction, and this subcommittee intends to fulfill its oversight responsibilities to ensure that the Postal Service continues to move toward a system based, not on a nine digit ZIP Code, but on multi-line OCRS and mailer bar coding.

Our witnesses, for today are Mr. Peter Jacobson, Assistant Postmaster General, Engineering and Technical Support Department, and John J. Davin, Assistant Postmaster General, Procurement and Supply Department.

I thank you gentlemen for being with us today. You may proceed, Mr. Jacobson.

TESTIMONY OF PETER A. JACOBSON, ASSISTANT POSTMASTER GENERAL, ENGINEERING AND TECHNICAL SUPPORT DEPARTMENT

Mr. JACOBSON. Thank you, Mr. Chairman.

Mr. Davin and I are here at your invitation to discuss the automation of the Postal Service's mail processing system.

As you are aware, postal automation was set back last year when the testing of multi-line optical character readers or OCRs had to

be suspended due to attempts by a few individuals to undermine the integrity of the procurement process. Today I am pleased to report that our automation program is firmly back on track. We are well on our way to reaching a goal of maximizing the application of modern technology to the job of processing the nation's mail.

We are working hard to make up for lost time. Our objective is to put into place a network of multi-line OCRs at the earliest possible date. Coupled with the ZIP + 4 code, multi-line equipment is expected to allow us to take full advantage of the savings potential offered by automation. These machines are designed to read an entire address and, after searching an internal computerized memory, determine the ZIP + 4 code for that address and print the related bar code. As the mail is processed, the bar code can then be "read" by other equipment.

As a first step, 406 Phase II single line OCRs which have already been built or are in production will be modified by the manufacturer to read full addresses. The retrofitted equipment is scheduled to be deployed between February 1988 and May 1989. This will enable us to quickly begin capturing the critical savings from the multi-line process. We estimate that these savings eventually will approach $950,000 a day.

In order to help us plan the rest of our multi-line network, we recently competitively awarded a total of six modification and testing contracts, five for the development of new generation multi-line readers and one for the modification of Phase I single-line OCRs. The equipment designed pursuant to these contracts will be tested during the period from May to October 1988.

Based upon the results of those tests, as well as cost factors, we will decide whether to buy only new equipment or to combine new purchases with the retrofitting of the older, single-line OCRs. We expect that one or more production contracts will be awarded in late 1988, that deliveries will begin a year later, and that our multi-line network will be completed by August 1991.

As we move closer to a fully automated mail processing system, we intend to make sure that our customers are given an opportunity to gain their fair share of automation's economic dividends. Until recently, attention centered primarily on the benefits the ZIP + 4 code promised the Postal Service. Not enough thought was given to the economic impact of ZIP + 4 coding on the mailer directly.

Postal automation is intended to reduce the mail preparation and handling costs incurred by the mailer as well as by the Postal Service. To ensure a more balanced approach, we plan to provide mailers with a range of mail preparation options from which to choose the one that makes the best economic sense for them. We are currently working with industry representatives in developing those options.

At this time, we would be most happy to answer any questions you may have.

Mr. LELAND. Thank you, Mr. Jacobson.

TESTIMONY OF JOHN J. DAVIN, ASSISTANT POSTMASTER GENERAL, PROCUREMENT AND SUPPLY DEPARTMENT

Mr. DAVIN. Mr. Chairman, I would like to thank the committee for this opportunity to be heard. I think both Pete and I are excited about what is being done in the Postal Service and our progress in the automation area. We are pleased to have the chance to share it with you.

Thank you very much.

Mr. LELAND. That was a great statement, Mr. Davin. Thank you.

There are mailers who are pre-bar coding even though the Postal Service offers no financial incentives for them to do so. Can you give us some estimates on how many mailers are doing that and what is the volume of mail that they are generating?

Mr. JACOBSON. We don't have specific numbers relative to the number of mailers who are pre-bar coding today. We do know that there are several hundred thousand that have business reply mailing permits, and that these people elect to use them. We don't know the volume.

When you look at pre-bar coded mail today, there are different types. There's the mail we call FIM mail, which includes courtesy reply mail and business reply mail that is bar-coded. The customers use that mail for various benefits, mostly to get quicker access to the mail when it reaches their delivery unit in the morning or from the mail processing plant. Too, by virtue of putting bar-codes on either courtesy reply or business reply mail, customers can get additional separations made for their businesses. Instead of getting their mail all together, we can break it out.

Several customers are at this point using bar codes on their outgoing mail, mail they are sending out of their plant. There, most of the people are using it to enable them to facilitate pre-sorting. They will bar-code the mail when they address it, use the bar code for subsequent sorting of the mail by ZIP Code area.

Mr. LELAND. Mr. Jacobson, if there is no financial incentive for mailers to pre-bar code, what is the incentive for them?

Mr. JACOBSON. The incentive, basically—indirectly, it's financial, especially in the business reply mail. For that mail contains payments, they get the mail directed to them faster. They also can get their payment mail, mail containing checks, separated from the nonpayment mail.

So, basically, it is to save internal operating costs, not to save postage.

Mr. LELAND. Are there companies that you can give examples of who are already bar coding?

Mr. JACOBSON. There are a couple that we're aware that are doing the bar coding on the outgoing side, not on the incoming. This is the mail they're sending out. One of the biggest is AT&T. In Philadelphia, there's Prudential Life and Atlantic Power and Light in New Jersey.

Mr. LELAND. Why did you include a discount for pre-bar coding in the current rate case?

Mr. JACOBSON. Basically, the discount reflects the savings that the Postal Service acquires by virtue of the customer putting the bar code on the mail piece. Instead of having to run the mail

through an OCR, we can take that mail that has a nine digit bar code, transport it to the destinating or delivery area and process it immediately on a bar code sorter. It basically allows us to avoid steps in our operating process.

Mr. LELAND. What level of pre-bar coding volume do you expect that discount to produce?

Mr. JACOBSON. Very, very preliminary projections are approximately half a billion pieces in 1989, and approximately 2 billion the year after.

Mr. LELAND. What level of savings do you expect to produce?

Mr. JACOBSON. Half cent a piece.

Mr. LELAND. Half cent. How did you arrive at the half cent figure?

Mr. JACOBSON. Basically, that is the cost the Postal Service avoids in the processing of this mail.

Mr. LELAND. I'm sorry. Could you explain that?

Mr. JACOBSON. Excuse me. Those are the costs that the Postal Service avoids in processing of customer bar coded mail.

Mr. LELAND. How much does a bar code sorter cost as compared to an OCR?

Mr. JACOBSON. The bar code sorter is approximately $175,000. That is the total cost we pay, including installation and spare parts, documentation. The Phase II optical character reader costs approximately $495,000, slightly under $495,000 a unit.

Mr. LELAND. How many bar coder sorters do you have?

Mr. JACOBSON. Right now we have 450 bar code sorters in the field.

Mr. LELAND. To what types of facilities are the bar coder sorters deployed?

Mr. JACOBSON. Generally, today you will find the bar code sorters at our major processing plants.

Mr. LELAND. I understand that the bar code sorters have about a 98 percent accuracy. Is that correct?

Mr. JACOBSON. When they sort the mail, they are 98 percent accurate or better.

Mr. LELAND. I understand that almost all of the remaining two percent is attributable to faulty bar codes. Is that correct?

Mr. JACOBSON. Faulty bar codes is essentially correct. There are other reasons, though. Interference, where the bar code is printed over other print on the envelope. In some cases, it's a mechanical problem. The bar code was read improperly, and it's diverted into the wrong stacker or separation on the machine.

Mr. LELAND. The converted OCR cannot sort to the same level that a bar code sorter can. What is the qualitative difference?

Mr. JACOBSON. Basically, the optical character readers have either forty-four or sixty separations. A bar code sorter offers 100 separations.

Mr. LELAND. I seem to recall that approximately 40 percent of total mail volume employs some level of presorting. Can you give us a more specific figure?

Mr. JACOBSON. I believe that number is closer to 60 percent today.

Mr. LELAND. 60 percent?

Mr. JACOBSON. Yes, sir.

Mr. LELAND. I know that the Postal Service recently conducted a study to explore the potential of mailer bar coding. Can you tell us the results of that study?

Mr. JACOBSON. Yes. Earlier this year, we sent out a questionnaire to 10,000 mailers to solicit their input relative to how best to bar code mail, and we got back approximately 1500 responses. They suggested that, in addition to bar coding in the lower righthand corner where we do today, the Postal Service with mailers ought to look at other locations for putting the bar code on the mail piece. One of a number of choices, or one of the higher choices was in the address block itself, and we are working with industry to do that now.

Mr. LELAND. And you are going to follow up on some of those suggestions?

Mr. JACOBSON. We have a committee established. Mr. Tisch in April of this year established an Automation and Bar Code Committee with representatives between industry and the Postal Service, to explore options to give the customer greater latitude in bar coding their mail.

Mr. LELAND. Who are some of the people who have participated in the study?

Mr. JACOBSON. In the study of 10,000?

Mr. LELAND. Just a few.

Mr. JACOBSON. Let me check my notes, please.

Mr. LELAND. No, that's all right. You can just submit some of the names for the record, we would appreciate it.

Mr. JACOBSON. I'd be happy to.

Mr. LELAND. How does the Postal Service intend to market pre-bar coding to large mailers?

Mr. JACOBSON. Again, we're going to use our National Account representatives to go out and discuss the potential of this program with the mailers, one-on-one contact. In addition, we will have several direct mailings to mailers, again explaining the virtues of bar coding their mail.

Mr. LELAND. Thank you. I notice that three of the six development contracts were awarded to foreign countries. I must tell you that that bothers me a great deal. What efforts, if any, did you make to award these contracts to American firms?

Mr. DAVIN. In seeking as much effective competition as we could, we invited anyone with OCR capability throughout the world to submit their proposals. From that effort, which started with a large number, we received six proposals.

You are right. Three of the proposals we received were from foreign sources. It was our decision to maintain that base of competition on an ongoing basis, and we decided to award contracts to all six who had responded to our request.

Mr. LELAND. So all six got contracts?

Mr. JACOBSON. Yes, they did.

Mr. LELAND. I know when the staff met with the two of you to discuss this matter, you apparently were surprised at how strongly we feel about this, and it's largely due to the fact that Bob Hope has taught us that we ought to really buy American. But have you made any efforts toward ensuring that American companies are given every possible opportunity to receive future Postal contracts?

Mr. DAVIN. We have, and we will. Our commitment continues to be to give preference to American sources of manufacture. I think we are as interested as anyone in finding as many good sources here in this country as we can. They're easier to manage. They are more likely to be productive and to produce the product that we want. However, we must recognize that technology doesn't know borders, and when we seek out the latest capabilities we must be willing to listen to proposals from wherever they come.

Mr. LELAND. Very good. Also at that meeting you explained to the staff your rationale for awarding a contract to REI. Could you repeat that for the record?

Mr. DAVIN. Surely. REI continues to be, in our view, a capable and competent source of supply. REI, while they have been under investigation, there has been no action that I know that's been taken that legally prevents us or instructs us not to do business with them.

Interestingly enough, REI is one of the sources of the American technology in the OCR area. So we invited them to submit a proposal. They did submit a responsive one. They met our cost and technical criteria, and we made an award on that basis.

Mr. LELAND. If I may, let me just inject that I think that it was a fair and just decision that you made. I agree that they have not been proven guilty of anything at this time. It's all a matter of allegation.

There have been press reports that indictments against one or more REI officials may be forthcoming. What, if any, effect could this have on that contract?

Mr. DAVIN. We really would be unable to answer that until we knew the nature and the degree of those indictments and what happened with them. I think, there we would turn to our own legal staff for guidance as to what those would mean to us in terms of the continuity of a source of supply, and we would act in accordance with that.

Mr. LELAND. I appreciate that. At the time you awarded the contract to Toshiba, there was, and still is, great outrage on Capitol Hill because Toshiba provided high tech defense technology to the Soviets.

Mr. DAVIN. Toshiba is one of those.

Mr. LELAND. Let me just finish, if I may. There is a conference underway on the trade bill that could result in Toshiba products being banned for several years. Were you aware of this, and did you give it any real consideration?

Mr. DAVIN. In terms of timing, we made the award to Toshiba on May 27, 1987. At that time there was no great deal of concern and focus on Toshiba as a possible compromise source of product. They came forward as a manufacturer of OCR equipment with proven technology, and on the basis of their bid they proved to us that they could meet our technical requirements, and we made an award to them as a competitive vendor on a worldwide basis without any knowledge of anything else that took place subsequently.

Mr. LELAND. You understand why the administration, as well as the Congress, is very concerned about the Japanese, the Koreans, the Republic of China, and the Taiwanese, and the trade imbalance

and how we are trying to leverage our position to get them to do more investing in this country.

We're very, very concerned about that, but let me add another dimension to that to expand on my concern.

That is, is that Mr. Nakasone a few months ago made an outrageous statement about minorities. Mr. Nakasone stated that minorities were diluting the ability of the American people to compete in the world marketplace.

I have investigated that statement and have even reviewed it with Mr. Nakasone himself. I have spent a considerable amount of time with the Ambassador from Japan, as well as having met with representatives of trading companies, who I'm sure you had dealings with in letting this contract, and have also met with minority, both Hispanic and black, leaders, on this very critical issue.

It seems that we are rewarding those people who continue to make outrageous assumptions about minorities and women in this country I don't want to be a party to rewarding them. I would hope that in the future that you would give my statement some real consideration. There are very, very few, miniscule, to say the least, and incidental, to say the most, minorities who are allowed to participate in business opportunities in this country such as holding franchises from Japanese franchisors and selling of products made in Japan because Japanese trading companies, which control the trade and financial investment of Japan in the U.S., engage in racially discriminatory practices. But I just want to make that statement.

This matter provides an opportunity for you, at your next meeting with the Japanese, to raise that question yourself.

Anyway, I guess that was just more of an opportunity to make the statement than it was to elicit some response. However, you may respond if you'd like.

Mr. DAVIN. Mr. Chairman, I think I share your concern as an American with the trade balance problem. I think we must do more about building a stronger manufacturing capability here in this country, and I think Postal, more than any organization I've seen, is committed to that concept of buy American in any instance where it makes good, logical sense.

I think, however, we must recognize that it is a single world in terms of technology, and I would hope you would agree that when we look for the best product that is available, the most effective and most efficient, we would be willing to look anywhere in the world and then decide where it should be sourced from.

Mr. LELAND. I appreciate that. That sort of answers the next question that I would have asked, and I hope that, truly, this is the feeling held throughout the administration of the Postal Service.

I am most concerned about our letting of contracts to foreign interests when in fact our economy is in such dire need. For anybody who doesn't believe that, let me walk hand in hand down Wall Street at anytime in the next few days or the next few weeks to see the shambles that our markets are in and how we need to somewhat look more inward and consider what we have to offer in this country.

I have some other questions that I'd like to submit to the two of you for the purpose of the record. I will keep that record open for

the receipt of those responses from you and any other questions that might be asked of my colleagues submitted in writing to you.

We have a vote on, and I have about seven minutes to get there for that vote. I see no need to hold you any longer. I thank you for your testimony, and we'll just adjourn the meeting. Thank you so much.

Mr. DAVIN. Thank you very much.

Mr. JACOBSON. Thank you.

[Whereupon, at 11:11 a.m., the subcommittee was adjourned.]

[The following response to written questions was received for the record.]

INTEGRATED RETAIL TERMINALS

1. QUESTION: In response to an inquiry I made requesting information on the Postal Service's Retail Window Automation Program, Postmaster General Tisch informed me that a solicitation would be issued the first week of September for the procurement of 30,000 plus IRTs. Has that solicitation in fact been issued, and if so, when?

   RESPONSE: The solicitation was issued on October 23, 1987. The delay was primarily due to minor restructuring of the solicitation to encourage more interest by industry in this competitive procurement.

2. QUESTION: If not, when do you anticipate issuing it?

   RESPONSE: Reference previous question.

3. QUESTION: Given the delay in issuing this solicitation does the Postal Service plan to accelerate the deployment schedule of the 30,000 plus IRTs?

   RESPONSE: At this time, we do not plan to accelerate the deployment schedule. The solicitation currently requires delivery of the 30,000 plus units over a 12 month timeframe.

4. QUESTION: In the Postmaster General's response he indicated that though the design requirements for the original solicitations of IRTs were satisfactory, the solicitation for the 30,000 plus IRTs would include minor modifications. What are these modifications and how will they benefit the Postal Service?

   RESPONSE: The Postal Service recognizes that technology changes at a rapid pace and that the computer industry is a leader in technological advances. The IRT specification has been modified to take advantage of the potential of technological advances. The changes to the specifications are an inclusion of a "multi-tasking" - "multi-user" operating system, additional memory and communication ports and several communication protocols. These changes provide a base system which can easily be enhanced in the future as additional requirements develop.

In addition, the new specifications call for modulatization of components. This will provide flexibility in installation of the component in the existing service counties. The Express Mail Tracking System is a requirement of the new IRTs and will also be retrofitted in the Phase II equipment.

5. QUESTION: Will these modifications result in notable operational or technical complexity of the system?

RESPONSE: We do not believe that these modifications will result in a significant increase in the operational or technical complexity of the system.

6. QUESTION: Will there be a significant incremental cost associated with these modifications?

RESPONSE: We don't anticipate a rise in cost to the Postal Service. In fact, we would expect the competitive bid process to reduce the cost.

7. QUESTION: In addition to the changes already planned, I understand that the Postal Service anticipates including a requirement that the IRTs be capable of expansion to meet future requirements as well. Is that the case?

RESPONSE: Yes, we do want equipment that has the capability to support future expansion to accommodate growth in the number of window transactions.

8. QUESTION: If so, I think it is important to recognize that we have experienced a general decline in the cost of technology over time. Given this trend, does the Postal Service plan to defer both the price evaluation and the purchase of the additional hardware and software features until such time as they are actually needed?

RESPONSE The present IRT procurement of 30,000 plus units is to provide a base equipment with the capability to be easily enhanced in the future with additional functions. However, the solicitation requires that the offerors also provide optional pricing for supervisory and expanded supervisory functions.

9. QUESTION: If not, what is the justification for evaluating and/or purchasing the features at this time?

RESPONSE: Because of the significant amount of equipment being purchased at this time, these enhancements should be available at reduced costs. If they are cost beneficial, the Postal Service will procure these at this time.

PHASE I CONVERSION CONTRACT

10. QUESTION: In June of this year the Postal Service awarded seed money, totalling $1.1 million dollars, to ELSAG, an Italian company, for the purposes of developing a retrofit kit to convert single-line OCR machines purchased from Pitney Bowes. Is ELSAG working on converting only the Pitney Bowes machines for which they developed the technology or will they also look at the Burroughs/NEC machine which comprises the other half of the Phase I contract?

RESPONSE: Under their current modification and test agreement, ELSAG will only develop conversion kits for their Phase I OCR equipment manufactured by Pitney Bowes.

11. QUESTION: When will the decision be made on whether or not to convert the Pitney Bowes OCRs?

RESPONSE: A decision will not be made on the conversion of the Pitney-Bowes OCRs until the Part B Multiline OCR competitive tests are completed in October 1988.

12. QUESTION: If the Pitney Bowes OCRs are not converted, how will the Postal Service utilize these machines, as well as the Burroughs/NEC OCRs also purchased as part of your Phase I program?

RESPONSE: There are several possible uses for the Phase I OCRs. They will probably be moved to smaller offices that currently do not have automation. At these smaller offices, they can be used as an OCR for originating mail and as a bar code sorter for the bar coded destinating mail coming from the large automated offices.

13. QUESTION: How does the performance of the Phase I OCRs compare to the Phase II OCRs?

RESPONSE: The performance of the Phase II OCRs is approximately 22% better than the performance of the Phase I OCRs.

14. QUESTION: To what types of facilities have the Phase I OCRs been deployed?

RESPONSE: The Phase I OCRs were originally installed in 120 of our larger mail processing facilities. Generally speaking, the Phase I OCRs will remain in these larger facilities until we start deploying the Part B multiline OCR equipment in 1990.

PHASE II CONVERSION CONTRACT

15. QUESTION: This past August the Postal Service announced a $150 million dollar modification to its contract with ElectroCom, the vendor who provided the Phase II OCRs. The modified contract would require ElectroCom to convert the 403 Phase II OCRs from single-line read to multiline read. Why did the Postal Service feel it was necessary to award a non-competitive contract for this conversion?

RESPONSE: After a careful analysis, we determined that only ECA could provide MLOCR capability in time to capture the significant cost savings associated with the equipment.

16. QUESTION: Was the Postal Service forced to alter its original plans to have competitive bidding for the conversion of Phase II OCRs because of the lack of authority to disclose, to interested vendors, so called proprietary information which was owned by the manufacturers of the Phase II OCR?

RESPONSE: No. A competitive test was underway in Phoenix, AZ when the improprieties of a former Board of Governors member surfaced. The Phoenix test was suspended at the request of Congress. An industry conference conducted at USPS Headquarters in Decmeber 1986 laid the groundwork for the present MLOCR procurement approach for which capital funding was approved by the Board of Governors in February 1987.

17. QUESTION: Allegations have been made that the Postal Service is paying more than they should for the conversion of its Phase II OCRs. Would you care to comment on these allegations?

RESPONSE: A thorough and detailed analysis was performed on the contractor's proposal. This analysis included all its sub-contract costs, purchased parts, direct and indirect costs, and profit. The USPS Contracting Officer determined, at the end of negotiations, the settlement of 150 million dollars as fair and reasonable.

18. QUESTION: It is my understanding that the converted OCRs are exceeding contract requirements. Do you think this added performance justifies the price?

RESPONSE: Since our original engineering estimates were higher than the final contract price and, based on these higher estimates, the projected pay-back was less than one year, we feel the price was justified based on the contract requirements. The fact that the converted OCR exceeded the contract requirement is a bonus.

19. QUESTION: Is in fact the cost to convert the Phase II OCRs the result of having to award the contract to the only company which had complete access to information required for the conversion and therefore that company was able to get the price they wanted because of a lack of competition?

RESPONSE: The price negotiated was not the price ElectroCom Automation "wanted". ElectroCom originally submitted a preliminary price of $194 million dollars for the Conversion Program that was eventually negotiated for $150 million dollars. This agreement was a result of a thorough and detailed analysis by the USPS contracting officer and is considered to be fair and reasonable.

20. QUESTION: What steps are being taken to ensure that the Postal Service does not find themselves in a similar position regarding so called proprietary information, thus limiting your options down the line?

RESPONSE: Determinations regarding Postal Service procurement of proprietary information will be made on a case-by-case basis. Whichever solution results in the best interests of the Postal Service will be that selected.

21. QUESTION: What was the original cost, per machine, for the Phase II OCR?

RESPONSE: Approximately $492,000 per machine including cost of installation, spare parts, etc.

22. QUESTION: Under the current modified contract what is the cost, per machine, to convert a Phase II OCR?

RESPONSE: Approximately $370,000 per machine including cost of installation, spare parts, etc.

23. QUESTION: Of the 406 single-line read OCRs originally purchased under Phase II, how many have been deployed?

RESPONSE: As of December 1, 1987, 275 Phase II OCRs were installed and operational. These machines are being deployed at the rate of 3 per week.

24. QUESTION: When do you anticipate conversion of the already deployed single-line Phase II OCRs?

RESPONSE: The multiline conversion of the Phase II OCRs will start in February 1988 and will be completed in May 1989.

25. QUESTION: I understand that the remaining single-line OCRs will be converted prior to deployment. What is the time-table for delivery of the converted Phase II OCRs?

RESPONSE: The last 98 Phase II OCRs will be delivered as multiline OCRs. Deployment of these machines will start in March 1988 and will be completed by October 1988.

26. QUESTION: How are the Phase II OCRs, already in operation, performing?

RESPONSE: Excellent.

27. QUESTION: How does their performance level compare to your expectations?

RESPONSE: The performance of the Phase II OCRs is much better than our expectations.

28. QUESTION: I understand that a postal facility in Denver, Colorado currently has, in operation, a recently converted Phase II OCR. How is the converted Phase II OCR performing?

RESPONSE: Excellent. The local post office personnel are impressed with the machine's performance and they are expanding its uses beyond what we anticipated.

29. QUESTION: I understand that the Phase II OCRs are exceeding contract requirements. Can you tell us how and to what extent they are exceeding those requirements?

RESPONSE: The actual performance being achieved by the Phase II OCRs is better (up to 22% better) than the contract requirements.

30. QUESTION: It is my understanding that there are about 17 million nine-digit ZIP Code areas. Can you give us the correct figure?

RESPONSE: The national ZIP+4 file contains approximately 24 million records.

31. QUESTION: It is my understanding that the prototype multiline OCR has sufficient memory for about 6 million of these areas. Is that correct?

RESPONSE: Yes.

32. QUESTION: It is my understanding that the production line model will have enough memory for about 12 million of these areas. Is that correct?

RESPONSE: 12 million is correct. This memory capacity will result in approximately 90% of the addresses on the originating mail at each automated site being included in the MLOCR's directory.

33. QUESTION: It is my understanding that the converted OCR is producing an overall read rate of about 85%. Is that correct?

RESPONSE: Of the mail which the converted OCR accepts, it is successfully applying nine digit bar codes on approximately 85% of the pieces whose addresses are contained in its memory.

34. QUESTION: It is my understanding that the read rate for pre-sorted mail is virtually 100%. Is that correct?

RESPONSE: The read rate for pre-sorted mail is much better than the other types of mail. However, a 90% to 95% read rate would be a more accurate estimate of the machine's performance.

DEVELOPMENT CONTRACTS

35. QUESTION: How many multiline machines do you think the Postal Service will eventually need?

RESPONSE: We are currently projecting a total need of approximately 700 multiline OCRs by the early 1990s.

36. QUESTION: When a decision is rendered regarding the purchase of new multiline OCRs, do you anticipate a sole source procurement contract or will several companies be awarded contracts?

RESPONSE: MLOCR production contract(s) resulting from the Part B test effort will be competitively awarded. Each of the units presented under Part B will be tested in a live-mail environment and their performance recorded. It is the present intention of the Postal Service to compare all the results and select the equipment(s) which are of the greatest benefit to the Postal Service. The winner(s) will be the company (or companies) which achieves the best combination of equipment price and performance based on an evaluation cost model which is incorporated into each of the modification test agreements.

37. QUESTION: How much better performance does the Postal Service hope to gain from any new multiline OCRs?

RESPONSE: While we can't quantify the amount, we do expect that the new, Part B multiline OCRs will perform better than the converted Phase II OCRs. Because of the rapid changes in technology during the past year, improvements in throughput, accept rates and directory capacity are anticipated.

GENERAL

38. QUESTION: A GAO report released on October 22nd says that only 10% of the five billion discounted nine-digit ZIP Coded letters received between September 1985 and March 1987 were processed on the automation equipment. Would you please comment on these findings?

RESPONSE: On October 21, 1987, I appeared before the subcommittee on Government Information, Justice and Agriculture House Committee on Government Operations to comment on this subject. I believe that my opening statement to that subcommittee clearly summarizes my comments on the GAO reports and I have attached a copy of that statement for your information.

39. QUESTION: How much did it cost the average mailer to convert a mailing list to the nine-digit ZIP Code?

RESPONSE: If a mailer goes to a service bureau to have his file converted to the ZIP+4 code, the cost will vary due to the condition of his file and any other services which he has done at the same time. Our information would indicate that the conversion cost will normally range from $4 to $15 per 1,000 addresses. However, large mailers who have millions of addresses normally lease matching software and can convert their files at a much less cost per address.

40. QUESTION: In your testimony, you say that the eventual savings will approach $950,000 per day. Explain to this committee how this figure was arrived at?

RESPONSE: To determine the benefits of the multiline OCR program, detailed mail flow simulations were conducted at each of the 216 automated post offices during the spring and summer of 1986. Using their actual mail volumes, volume availability times, and processing rates, each office simulated the mail flow through the facility to determine the workhours and equipment required to process

the mail to its final deposition - either outgoing dispatch to another facility or to the appropriate carrier for delivery. This simulation was based on only single-line OCRs (SLOCRs) being used to process the mail.

Each office then resimulated their mail flow based on all OCRs having multiline read capability. For this multiline OCR (MLOCR) simulation, it was assumed that the processing rate of the MLOCR was equivalent to the Phase II SLOCR and that the MLOCR would place a nine-digit bar code on 60% of the mail that it accepted and was included in its address directory. By comparing the results of the SLOCR and MLOCR simulations, the total potential MLOCR savings was determined for each office. These total MLOCR savings were then re-examined to determine what portion could be achieved by the multiline conversion of the Phase II SLOCR. This resulted in a projected savings of $786,000 per day based on our performance expections for the converted Phase II SLOCR. However, the prototype test of the converted Phase II SLOCR indicated that the actual nine-digit bar code performance (85%) would far exceed our expectation (60%). The MLOCR simulations were revised using the demonstrated performance of the prototype machine. This resulted in a new projected savings of $950,000 per day for the converted Phase II SLOCRs.

Questions of Congressman Frank McCloskey

41. QUESTION: Under the U.S. Postal Service's debarment procedures, could REI have been debarred prior to the awarding of the multiline OCR contracts?

42. QUESTION: If yes, who made the decision not to begin debarment procedures against REI? Why was this decision made?

RESPONSES TO QUESTIONS 41. & 42. - The Postal Service's debarment regulations (Postal Contracting Manual 1-604.2 authorize debarment for five specific causes. In summary, they are:

(1) Conviction for commission of a criminal offense incident to obtaining, attempting to obtain, or performing a public or private contract or subcontract thereunder;

(2) Conviction under anti-trust statutes arising out of submitting bids or proposals;

(3) Serious breaches in connection with performance of a Postal Service contract of:

(i) Willful failure to perform;

(ii) A record of failure to perform or unsatisfactory performance;

(iii) Violation of a contractual provision against contingent fees;

(iv) Acceptance of a contingent fee paid in violation of a contract provision;

(4) Any other serious and compelling cause as may warrant debarment;

(5) Debarment by some other Executive agency or department.

Debarment is a serious remedy which provides for preclusion from government contracting for up to three year's time. The Postal Contracting Manual also allows for the suspension of prospective contractors for shorter periods of time (usually 120 days, but subject to extension in 120-day increments) when there is suspicion that they have been engaged in wrongdoing. See, generally, PCM 1-605.

At the time of the multiline testing agreements, no action had been taken against REI sufficient to warrant either debarment or suspension. While there had been various allegations of misconduct arising out of activities involving former Governor Voss, they were vigorously denied by the company. Further, prior to the return of an indictment, no information gathered by the Postal Service's Inspection Service or the Department of Justice in the course of their criminal investigation would be available to the Postal Service's debarring or suspending officials under Fed. Rules. Crim. Pro. 6(e).

43. QUESTION: In the event that REI officials are indicted by the grand jury, will the Postal Service begin debarment procedures immediately? If not, why not?

RESPONSE: The action to be taken in the event that REI or its officers are indicted will depend on a number of factors, including the nature of the indictments. Suspension and debarment are actions to be taken in the public and Governmental interests, and thus are not taken automatically without consideration of all the circumstances involved. As PCM 1-604.1 (c)(1) notes:

> The existence of any of the causes (for debarment) does not necessarily require that a firm or individual be debarred. In each instance, whether the offense, failure, or inadequacy of performance be of a criminal, fraudulent, or serious nature, the decision to debar shall be made within the discretion of the department head and shall be rendered in the best interest of the Government. Likewise, all mitigating factors may be considered in determining the seriousness of the offense, failure, or inadequacy of performance, and in deciding whether debarment is warranted.

44. QUESTION: According to the Federal Acquisition Regulation (FAR), a criminal indictment may serve as grounds for suspension. In the event that REI officials are indicted, will the Postal Service suspend their contract?

RESPONSE: The question misstates the effect of suspension. Both suspension and debarment relate to eligibility for future contracts; they do not, of themselves, affect the rights of the parties under existing contracts. See PCM 6-603.

45. QUESTION: What action does the Postal Service intend to take if officials at REI are indicted?

RESPONSE: If officials at REI are indicted, the Postal Service will review the circumstances related in the indictments and other related matters to determine whether suspension or debarment is appropriate consistent with the guidelines outlined in response to question 44, above.

46. QUESTION: In view of the public sentiment towards Toshiba, why did the Postal Service award them a contract to test mail processing systems?

RESPONSE: A modification and test agreement with Toshiba was executed on May 29, 1987 prior to general public awareness of the controversy.

47. QUESTION: Should the Senate trade bill provisions prevail and become law, will the Postal Service cancel the Toshiba contract?

RESPONSE: To the extent the proposed legislation, if enacted, would prohibit the importation of Toshiba products or technology, or require the Postal Service to terminate its contracts with Toshiba, the Postal Service will comply with the law.

48. QUESTION: If the Senate trade bill provisions do not become law, does the Postal Service plan to allow Toshiba to continue to bid for contracts? If yes, please explain the rationale.

RESPONSE: If such restraints are not imposed, the Postal Service perceives no present legal basis to preclude Toshiba from participating in future competitive procurements.

CUSTOMER BAR CODING SURVEY

As you requested during the hearing on October 22, attached is a breakdown of the association and group mailing lists that were used to distribute the 10,000 questionaires on customer applied bar coding. The Postal Service agreement with the contractor that conducted the survey does not permit divulging the names of individual firms that received or responded to the questionaires.

	GROUP/ASSOCIATION	TOTAL FIRMS
1.	Direct Marketing Computer Association	125
2.	Mail Order Association of America	5
3.	Accounting Directors/Controllers Domestic	8
4.	Associated Church Press Directory	169
5.	Military Postal Service Agency	23
6.	Third Class Mail Association	652
7.	Computer & Business Equipment Manfacturers Assn.	22
8.	Red Tag News Publications, Inc.	49
9.	Direct Selling Association	101
10.	Book Manufacturers' Institute	35
11.	National Postal Forum Visitors List	33
12.	National Accounts Postal Contract List	61
13.	New Postal Policy Council	18
14.	Financial Stationers Association	28
15.	Western Publications Association	207
16.	Society of National Association Publications	252
17.	Magazine Publishers Association	249
18.	Independent Offices	3
19.	American Public Gas Association	954
20.	Mail Advertising Service	470
21.	Direct Marketing Association	2,483
22.	USPS Address Information System Subscribers List	4,053
	Total	10,000

STATEMENT OF PETER A. JACOBSON
ASSISTANT POSTMASTER GENERAL, ENGINEERING
AND TECHNICAL SUPPORT DEPARTMENT
BEFORE THE SUBCOMMITTEE ON GOVERNMENT
INFORMATION, JUSTICE, AND AGRICULTURE
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

October 21, 1987

Mr. Chairman, I am Peter A. Jacobson, Assistant Postmaster General, Engineering and Technical Support Department. My responsibilities include planning for the Postal Service's requirements for automated mail sorting equipment and establishing standards for its use. With me here at the table is Arthur I. Porwick, Director of the Office of Mail Processing Operations in our Mail Processing Department. He is responsible for support of mail distribution and processing, including the use of our automated mail sorting equipment. We are here at your request to comment on a draft General Accounting Office report on "Processing of ZIP + 4 Letters Receiving Postage Discounts."

This report examines the progress made from late September 1985 to mid-March 1987, in starting to secure the benefits of automated process ng of ZIP + 4 coded mail. During this period the Postal Service began deployment of single line optical character readers (or OCRs) and bar code sorters. These machines enable the Postal Service to replace some of our mechanized letter sorting operations which depend on operator-keyed ZIP Code information with more efficient automated sorting based on recognition of the ZIP Code by the OCR. With single-line

readers, the largest potential saving involves automated processing using mailer-applied ZIP + 4 codes.

We have recognized from the beginning that running the OCRs and bar code sorters with ZIP + 4 sorting programs would not start to be productive in any particular operation until a threshold volume of ZIP + 4 mail was available for processing. The Postal Service also recognized that as mailers would incur costs to start applying the ZIP + 4 codes, incentives for mailers who use the codes were needed in order to start to build the volumes required for the automated equipment to be most productive. Rate incentives of one half and nine tenths of a cent per letter depending on presorting were made available beginning in October 1983 for ZIP + 4 First-Class Mail meeting certain standards.

During the early start-up period covered by the GAO report, it became apparent that the growth of ZIP + 4 mail available for automated processing was proceeding at a slower pace than the Postal Service had anticipated. As a result, as the report shows, the opportunity for our mail processing operations to take advantage of ZIP + 4 savings has been slowed. Still, GAO's figures confirm that the quantity and percentage of ZIP + 4 mail being processed automatically rose steadily over the period covered by the report. During the six months since that time, the growth pattern has continued as more OCRs and bar code sorters are being deployed. Increasing volume of ZIP + 4 mail

and further deployments of automated equipment will continue this progress towards the threshold volumes in the months ahead.

As it became apparent that the volume of letters with mailer applied ZIP + 4 codes would not develop as rapidly as projected, the Postal Service reassessed the program and decided to make some changes. We have shifted from single-line OCR technology to multiline technology, which is intended to read the full address in order to furnish the ZIP + 4 code when the mailer does not. OCRs already delivered will be converted to multiline or eventually replaced with newer multiline technology. While mail with the ZIP + 4 code applied by the mailer will still provide a high value in automated sorting, the multiline technology will assure that we have enough barcoded volume to make the best use of the automated system. Multiline equipment going on line starting in March 1988 will contribute enough ZIP + 4 coded letters immediately to start ZIP + 4 automated processing in secondary operations (that is, distribution of mail to carriers) for many zones which currently have insufficient volumes to justify it.

The Postal Service also has proposed to restructure the rate incentives for mailer application of ZIP + 4 information. The proposed incentives range from eight tenths of a cent to two cents, depending on presorting and bar coding. This matter is currently being litigated in proceedings before the Postal Rate Commission. As provided by law, the rate incentives must be

established on the basis of an evidentiary record compiled in those proceedings.

The principal recommendation of the GAO's report was that the Postal Service should do more to assure that the ZIP + 4 mail which is in the mailstream is identified and that available savings from automated processing are realized. We agree with GAO's finding that a lack of awareness of ZIP + 4 volumes in some of our field operations has been a contributing factor in holding down progress in automation of incoming secondary operations. Recent instructions to our field managers have stressed the necessity to measure current volumes of ZIP + 4 mail for local city and associate office zones in order to obtain the full benefit of that mail to the processing system.

We have initiated other operational programs to help accelerate the increase in the percentage of mail being processed automatically to carrier routes. These initiatives are designed to --

* Train more automation readability specialists to check the readability of incoming mail.
* Identify and correct poor quality addresses.
* Improve scheme maintenance and reject rates on bar code sorters.
* Test different sortation techniques and systems using multiline OCRs and bar code sorters and develop appropriate guidelines for their use.

We also agree with GAO's comment that ZIP + 4 mail going to our associate offices from automated sorting centers would benefit from automated processing. Many offices have already automated incoming secondary operations for some of their associate offices. The Postal Service will continue to move in this direction as quickly as conditions allow.

The Postal Service is fully committed to the automation program and to the benefits of the ZIP + 4 code within that program. For the reasons which GAO well summarizes, the anticipated transition period during which this program is installed and begins to gather momentum has been longer and slower than we would have liked. But the numbers are steadily improving and all of the steps which I have outlined will help to assure that the program fulfills its large potential. When our automated equipment is fully deployed at about 215 processing centers nationwide, we will have a modern, efficient, and productive letter sorting system which will serve the nation well for many years.